STANDARD & POOR'S

Capital Series OzAsia

Analyst(s): Rodney Lay, Tom Mills

OVERALL RATING	
SOUND	
COMPONENT ASSESSMENT	
UNDERLYING	STRUCTURE
NOT ASSESSABLE	DELIVERS

Product Facts

Name:	Capital Series OzAsia	**Opening date:**	8 February 2010	**Issue price:**	A$1.00
Issuer:	Commonwealth Bank of Australia	**Closing date:**	19 March 2010	**Min. investment:**	A$10,000
Portfolio manager:	Not Applicable	**Start date:**	29 March 2010	**Multiples:**	A$1,000
Protection provider:	Commonwealth Bank of Australia	**Maturity date:**	7 Oct 2015 (5.5 years)		

Standard & Poor's View

The Capital Series OzAsia product (the product) consists of three separate equities-linked investment strategies that offer the potential of capital and, with two of the three strategies, income growth. All three provide the safeguard of 100% capital protection at the end of the 5.5-year investment term (the maturity date). A 100% investment loan is also available for eligible investors.

Strategy 1 provides a fixed income amount of 4.0% per annum plus the potential for capital gains. Capital returns are contingent upon the price performance of a basket of shares comprising the 20 largest ASX-listed companies by market capitalisation. Capital gains are capped to the upside which, when combined with the capital protection and fixed income component, generate a minimum and maximum total return of 3.6% and 11.3% per annum respectively, if held to maturity.

Strategy 2 provides a contingent annual income payment plus potential capital returns. Both are contingent upon the performance of the S&P/ASX 200 price index (the index). An annual income payment of 3.0% is contingent upon the index recording price growth of approximately 10% per annum since the issue date. Capital gains are capped to the upside at 100% over the 5.5 year term. When combined with the capital protection and fixed income component the minimum and maximum return is 0% and 16.2% per annum, if held to maturity.

Strategy 3 provides exposure to three equally weighted Asian equities indices, specifically the Chinese, Taiwanese and Korean equities markets. Returns are in the form of capital only. Potential capital gains are capped to the upside at 100% over the term. When combined with the 100% capital protection at maturity, the minimum and maximum total return is 0% and 13.4% per annum respectively, if held to maturity.

The strategies are characterised by an ascending risk and return profile with strategy 1 having the lowest risk profile and strategy 3 the highest. The dispersion of expected returns is materially lower in strategy 1 and the mix of income to capital return higher. Consequently, the three strategies may be suitable for quite different investor risk-return profiles and may represent quite different components in a diversified portfolio.

All three strategies require investors to have a positive view on the respective equities market. However, both strategy 2 and particularly strategy 3 are more leveraged to equities growth and a precondition to investor suitability is a very solid to strong market outlook.

Based on analysis conducted by S&P, the expected annual total returns for strategies 1, 2, and 3 are 8.0%, 8.2% and 5.8%, respectively. The results are based on a risk and return environment consistent with the long-term performance of the relevant underlying equities / indices. The results for strategy 2 and particularly strategy 3 are somewhat misleading though. For strategy 3, there is a very high probability that the investor will receive either the minimum or maximum return based on the performance of the three underlying indices due to their high volatilities. This reinforces the necessity that investors should have a strong outlook for the underlying equities markets.

Strategy 1 sits clearly as a fixed income investment. In the view of S&P, the expected return and the upside risk make this a competitive offering relative to, for example a five-year term deposit.

For strategies 2 and 3, while the expected return figures are not compelling, expected returns are materially better in a solid to strong market environment. For those investors with such a view and who are seeking a degree of equities exposure with limited and known downside risk these strategies may be a suitable offering.

S&P regards the loan as best suited to high marginal tax rate investors in order to maximise after-tax returns. Potential loan investors should be mindful that there is a significant possibility that the returns of all three strategies will not exceed the pre-tax interest expense. Additionally, for strategies 2 and 3 investors should have sufficient external income to largely or wholly service interest payment as product income will be either limited or not available

S&P has issued a 'SOUND' rating reflecting our view that the product is characterised by an efficient and effective structure, a clear target market and adequate value proposition for the right investor.

SWOT Analysis

Strengths

- The choice of three investment options with clear risk-return profiles, market exposures and distinct investor suitability and portfolio component attributes.
- In contrast to an alternative CPPI capital protection structure, the product does not incorporate deleverage risk. The flipside, however is that returns are capped under the product structure.

Weaknesses

- Expected returns for strategies 2 and 3 do not provide a compelling value proposition unless the underlying markets generate very solid returns. Investors should have a positive market outlook as a precondition to suitability for both strategies.
- Strategies 1 and 3 are long correlation, with lower correlation between the underlying constituents adversely impacting expected returns. All three are adversely impacted by volatility. These are more features than weaknesses.

Opportunities

- Strategy 1 presents a relatively attractive alternatively to a five-year term deposit for those investors who have a positive outlook for Australian equities.
- The contingent income payout structure is path dependent and incorporates an implicit market-entry timing risk. This is both an opportunity and threat.

Threats

- A period of high volatility will adversely impact the three strategies.
- A period of low correlation in the underlying portfolio constituents will adversely impact strategies 1 and 3.

OVERALL RATING
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Product Characteristics

All three strategies are based on a zero coupon bond (ZCB) plus option structure. For every dollar invested, the allocation to the ZCB, option component and adviser commission averages 74%, 24% and 2.2%, respectively.

Commonwealth Bank (CBA) does not charge an explicit fee. Rather, its fee based on the pricing of the ZCB and the loan interest rate. S&P approximates the fee to be around 0.7% per annum level.

Investors should note that there is counterparty risk associated with the capital protection and payment of returns and that risk lies with CBA. S&P regards counterparty risk as low given the entity's credit rating.

For strategy 1investors should refer to the product disclosure statement (PDS) for a list of the 20 constituent stocks of strategy 1. The 20 stocks are equally weighted at inception but not subsequently rebalanced during the investment term.

For strategy 2 the underlying index is the S&P/ASX 200 price index.

For strategy 3, the three underlying indices are Hang Seng China Enterprise Index (HSCEI), the TAIEX Index (TAIEX), and the KOSPI 200 Index (KOSPI). The three indices are equally weighted at inception but not subsequently rebalanced.

The HSCEI consists of H-shares, which are shares in companies incorporated in the People's Republic of China and listed on the Stock Exchange of Hong Kong. The index covers a wide variety of market sectors and represents a broad cross-section of the mainland Chinese market.

The TAIEX consists of all shares listed on the Taiwan Stock Exchange. The KOSPI is made up of 200 Korean stocks which make up a large proportion of the total market value of the Korea Stock Exchange. Investors should refer to the PDS for a list of the top ten constituents for each of the three indices.

A capital investment loan is available (except for superannuation funds). An investor may borrow up to 100% of their investment amount. An interest-in-advance loan is also available to fund 100% of the yearly interest owing.

There are three interest rate structure options; variable monthly in arrears (indicative interest rate of 8.05% p.a.), fixed payable monthly in arrears (9.2% p.a.), and fixed payable yearly in advance (9.05% p.a.). The indicative interest rate for the interest-in-advance loan is 8.75% p.a.

From a taxation perspective, any income component may be on income account in the year earned whereas capital returns upon exit are likely to be on capital account.

S&P advises that tax consequences depend on individual circumstances and investors should seek their own taxation advice. The above comments regarding taxation treatment are based on S&P's understanding, but cannot be considered tax advice.

	Low	Medium	High
Income return	Strategy 3	Strategy 2	Strategy 1
Capital return	1	2 & 3	
Income risk	1	2	
Income payment risk	1	2	
Risk to capital	Guaranteed		
Leverage	None		
Cost		Average	
Liquidity		Daily	
Transparency		Average	
Tax efficient		Neutral	
Manager experience			High

Fees And Costs	
Type	**Amount**
Brokerage fee	Up to 0.55% of the Maturity Value
Upfront commissions	2.2%
Trailing commissions	0.55% p.a. on the loan balance
MER	Approximately 0.7% p.a.
Early exit fee	Up to 1.5% of the Value

Payoff Profile

Investors should note that the payout profiles as described below assume the investment is held to maturity. For investors who redeem early, the return may be less than the capital protected amount and will be determined according to an option-based calculation method.

Investors should also note that they have no entitlement to any dividend income or franking credits that may be paid by the underlying securities or constituent stocks of an index.

Strategy 1.

Five annual income amounts of 4% are paid to investors on the coupon payment dates, which fall on Oct. 7 or 8, from 2011 through to 2015. The first payment is made 1.5 years after the issue date. With a 5.5-year investment term, the five 4% coupon payments equate to an effective payment of 3.6% per annum over the full term. The income payment is not contingent upon the performance of the underlying basket of the 20 stocks. It is fixed and guaranteed, subject to the credit risk of CBA.

With capital returns the performance of the basket is based on the average performance of each of the 20 stocks. The exposure to each stock is limited to 70% above the initial level of each stock at the maturity date. The performance of the underlying basket is then reduced by 20%, reflecting the sum of all fixed annual income paid over the tenor. Consequently, the maximum capital return of the underlying basket over the 5.5 years is 50% and capital growth is only achieved if the performance of the underlying portfolio is greater than 20% over the full term. With a 20% income return, the maximum total return is 70% over the 5.5 year term.

Investors have no entitlement to dividend paid by the 20 constituent stocks nor associated franking credits.

There is an inherent asymmetry of downside risk in the performance calculation. That is, the calculation method captures the full negative performance of each stock but limits positive performance to 70% over the term. As such, the lower the average correlation and the higher the volatility of the stocks, then the lower the expected return of the underlying basket will be for any given market-return environment.

Chart 1 on page three illustrates a randomly generated example of the payout profile of strategy 1 over the 5.5 year term. In the example, the constituent stocks generated a gain of 122% over the term (15.6% per annum). In contrast, the gain of the underlying basket was 55% (5.7% per annum). While the positive performance of the constituent stocks exceeded 70% this does not mean the underlying basket captures the full 70% gain due to the performance calculation being based on the capped performance of each individual stock. Income is paid out annually in October and is a fixed 4.0% per annum.

Strategy 1 may be suitable for investors seeking an enhanced, regular income stream but who are prepared to risk the income that would be otherwise be available from a low risk income-only alternative (up to 8% per annum for a five-year term deposit) in exchange for capturing some of the equities market's upside risk but with the safeguard of 100% capital protection.

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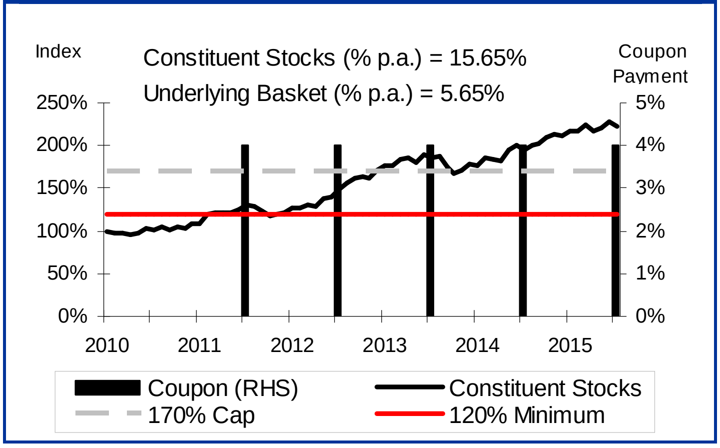
Chart 1: Strategy 1 Payout Structure



Strategy 2

At maturity strategy 2 captures a maximum 100% gain in the S&P/ASX 200 price index above the initial level on the issue date. This is a simpler and lower risk calculation method than that of strategy 1. As the calculation is based on a single underlying asset, there is clearly no inherent correlation risk.

However, there is risk associated with the contingent income payments. Coupons are contingent upon the performance of the S&P/ASX 200 price index on the coupon payment dates. If the performance of the S&P/ASX 200 index does not meet the required hurdle on any observation date, that coupon will not be paid and will not be carried forward to any future date. The coupon payout structure is path dependent: the total income return is dependent on how the index performs during the term rather than just at the end date.

The table below details the coupon payment dates and the hurdle rates.

Expected Contingent Income Payment By Period

Year	Payment Date	Hurdle
1.5	29 Sept 2011	S&P/ASX 200 index > 110% of initial level
2.5	28 Sept 2012	Index > 120% of initial level
3.5	30 Sept 2013	index > 130% of initial level
4.5	29 Sept 2014	index > 140% of initial level
5.5	29 Sept 2015	index > 150% of initial level

Chart 2: Strategy 2 Payout Structure

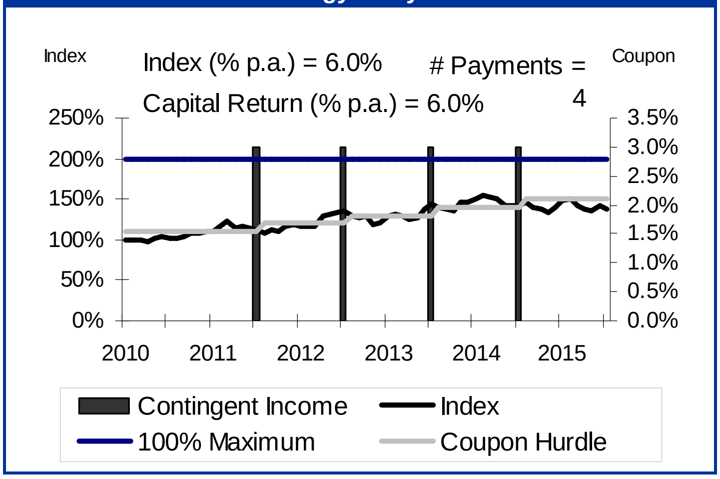


Chart 2 above illustrates a randomly generated example of the payout profile of strategy 2 over the 5.5 year term. In the example the underlying basket has captured the full performance of the index (as the return of the index was less than the 100% maximum). However, the coupon was only paid on four of the five coupon payment dates. In the particular simulation the fifth coupon was not paid because the index was below the hurdle level of 150% on the relevant payment date..

Strategy 3

Strategy 3 is based on the simplest payout profile. Capital returns at maturity are simply based on the performance of the three equally weighted underlying indices, capped at growth of 100%. There is no income. As such, the minimum and maximum returns over the full 5.5-year term are 0% and 13.4% per annum.

As strategy 3 is a capital-only product, a precondition to suitability is that investors have a strong positive view of the economic and equities market outlook of the east Asia region.

Simulated Risk-Return Analysis

S&P has conducted a Monte Carlo analysis to assess the simulated expected return profile of the three investment strategies.

The analysis is conducted separately for each of the three strategies and is based on three risk-return scenarios. The three scenarios are based on the rolling five-year historical risk and return performance of the underlying indices. In the case of strategy 1, the performance of the S&P/ASX 20 price index has been used as a proxy.

Using this data the three market environment scenarios are based on first, second (historic median), and third percentile rolling five-year price returns while the level of risk is based on the second quartile level. The risk and return variables are detailed below.

Risk And Return Scenarios

Scenario	S&P/ASX 20	S&P/ASX 200	HSCEI	TAIEX	KOSPI
Poor	3.8%	4.6%	-13.8%	-5.4%	0.0%
Historical	8.0%	7.7%	14.7%	1.9%	7.7%
Good	10.8%	10.0%	26.5%	6.8%	16.5%
Risk	12.9%	12.0%	38.3%	27.1%	32.2%

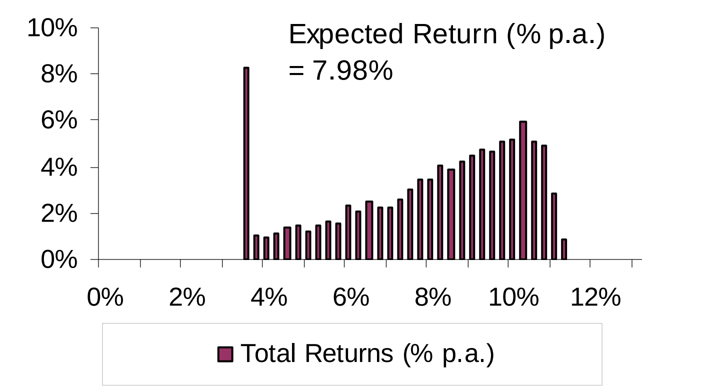
Additionally, for the basket option structure of strategy 1 and strategy 3, the analysis also factors in the long term historical correlation between the constituent stocks / indices.

Strategy 1

The expected performance of strategy 1 under the three scenarios is summarised in the table below while the probability distribution of expected returns is present in Chart 3. The key results include:

- In a risk and return environment consistent with the long-term average of the S&P/ASX 20 price index ("historical" scenario), there is roughly a 70% probability of a return that exceeds the most competitive five-year term deposit rates (8% per annum). This may provide an attractive alternative for investors with a positive market outlook who are prepared to take on a degree of equities risk.
- Due to the cap-and-floor payout structure, the expected level of returns is narrow and investors forgo a degree of capital upside in exchange for a guaranteed level of income; and
- The strategy is long correlation and short volatility: the higher the average level of correlation between the 20 stocks the higher the expected returns while the higher the volatility the lower the expected returns.

Chart 3: Strategy 1 Simulated Expected Returns



Strategy 1 Simulated Expected Returns

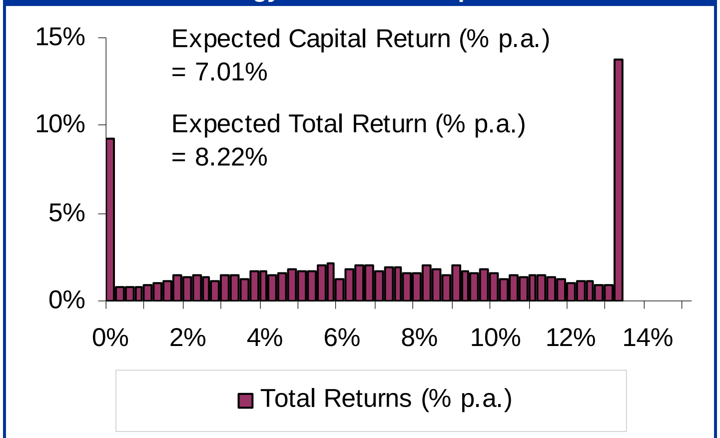
Scenario	Poor	Average	Good
Capital return	2.4%	4.3%	5.4%
Income return	3.6%	3.6%	3.6%
Total return	6.0%	8.0%	9.1%

Strategy 2

The expected total return exceeds a five-year term deposit rate but there is a wide dispersion of returns. Investors should have a positive view of the Australian equities market.

- Income payment risk is high, with investor expected to miss out on two to three of the five payments in a "historical" scenario. There is also a material probability that either all five or none of the income payments will be made, emphasising the income risk. Strategy 2 is not suitable for an investor seeking a regular source of income and may not be suitable for potential loan investors who require income from the investment to partly service interest costs.
- There is a material probability of receiving the maximum of minimum return on account of the cap-and-floor payout structure. This reinforces the need to have a positive market outlook.

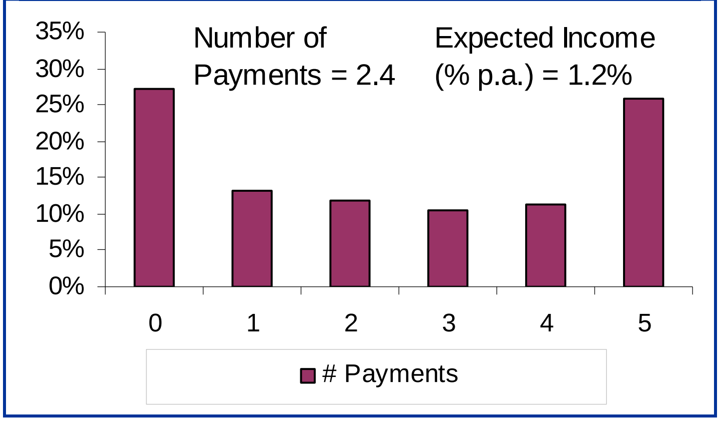
Chart 4: Strategy 2 Simulated Expected Returns



Strategy 2 Simulated Expected Returns

Scenario	Poor	Average	Good
Capital return	4.5%	7.0%	8.8%
Income return	0.8%	1.2%	1.6%
Total return	5.3%	8.2%	10.4%
Coupon payments	1.5	2.4	3.1

Chart 5: Expected Number of Payments

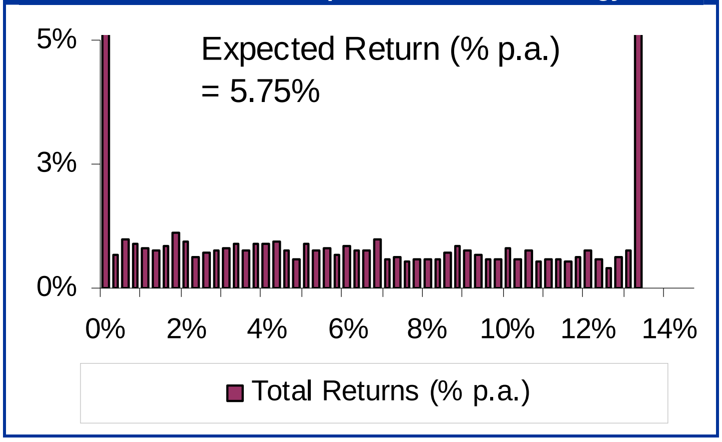


Strategy 3

The key results include:

- There is a significant probability in all three scenarios of receiving either the minimum (0%) or maximum (13.3%) return. In the three scenarios the probability of receiving either result ranges from around 62% ("historical") to 83% ("good"'), with a very wide and evenly dispersed range of outcomes in between. This is due to the particularly high volatilities of the three underlying indices. While the expected returns are relatively low, the actual figure is quite misleading.
- The strategy is long correlation and short volatility: the higher the average level of correlation between the three indices the higher the expected returns while the higher the volatility the lower the expected returns.

Chart 6: Simulated Expected Returns – Strategy 3



Strategy 3 Simulated Expected Returns

Scenario	Poor	Average	Good
Capital Return	1.3%	5.7%	8.6%

Analyst(s): Rodney Lay, Tom Mills.
Release authorised by: Leanne Milton.

Rating Philosophy

A structured product rating combines a qualitative assessment of the structures ability to provide exposure to the underlying asset class(es) and a view on the management of the underlying exposure the product is replicating/delivering.

OVERALL RATING VERY STRONG	S&P has assigned a very strong rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored exceptionally in a number of categories but may not be suitable for all investors.
OVERALL RATING STRONG	S&P has assigned a strong rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored strongly in a number of categories but may not be suitable for all investors.
OVERALL RATING SOUND	S&P has assigned a sound rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored satisfactorily in a number of categories but may not be suitable for all investors.
OVERALL RATING PASS	S&P has assigned a pass rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has passed a number of categories but may not be suitable for all investors.
OVERALL RATING WEAK	S&P has assigned a weak rating to the product based on its conviction that it can not meet its objectives over the stated time period. The product has scored weakly in a number of categories and may not be suitable for most investors.
OVERALL RATING ON HOLD	An On Hold designation is a suspension of a rating pending further analysis of a material change in the characteristics of a product.